A Case of Growth Without Development: A Comparative Study Between Nigeria and Malaysia

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A CASE OF GROWTH WITHOUT DEVELOPMENT: A COMPARATIVE STUDY BETWEEN NIGERIA AND MALAYSIA

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Abstract

Achieving the goal of economic growth for countries is analogous to increasing levels of productive activity and capacity. Intuitively, attaining this goal translates to higher incomes, higher levels of employment, and lots of goods and services available for consumption. However, evidence over time has shown that higher growth rates may not translate to economic development. This paper, takes a critical look at Nigeria's economic growth, placing emphasis on the possibility of her economic growth improving the material well-being and trickling down to the citizenry. To achieve this, the paper focused on two important aspects of economic growth; first, its inclusiveness and secondly its potential for future increments given country specific idiosyncrasies. Using comparative analysis between Nigeria and Malaysia, the paper finds that the non – inclusiveness of Nigeria's growth process as well as inadequacies in the key drivers of economic growth: human capital, financial development, capital accumulation, technology and institutions, have cumulatively hindered Nigeria's economic growth translating to economic development. The paper advocates for a more inclusive growth based framework that stresses a restructuring of the economy to become diversified as well as to commit resources to the furthering of key drivers of economic growth.

KEYWORDS: Economic Growth, inclusive growth, Economic Development, Comparative Analysis

1. Introduction

There has been a renewed interest in the main factors that drive long run economic growth in some developing economies around the world. Given country specific idiosyncrasies, a fundamental matter that continually receives extensive attention borders on the causes of long run economic growth - Why some countries grow faster in per capita GDP than others? What factors determine these disproportionate growth rates? And if these factors are country specifics? Attempts to answer these questions have provided economic literature with a range of probable factors, ranging from economic, and socio – cultural, to technological and more recently institutional. What is ostensible from economic literature is a diverse and complex set of hypotheses that underline a general vagueness of causal growth factors.

Notwithstanding the differences in postulates on the determination of economic growth for countries as well as the detailed limitations in interpretation and measurement of growth indices, long run economic growth remains a very significant economic goal that countries rigorously pursue through policy formulations. Economic growth can be measured as the annual increase in a country's Gross Domestic Product (GDP) (Ahgion and Howitt, 2006). As an indices, it gives a quantitative definition to the material wellbeing of people within a country and the long run capacity to produce. Perhaps, it is in this sense that some prominent economists advocate for less worries during business cycles – the short - run ups and downs in aggregate output from fluctuations in aggregate demand – and advocate for emphasis on the changes in long run trends in production.

As detailed in Aghion and Howitt (2009), the process of economic growth has allowed people to live in a lifestyle that is far beyond what was attainable 100 years ago, when per capita GDP was just a fraction of what it is today. In some sectors – for example health – the growth achieved in this sector in developed economies has allowed for a prolonged lifespan as

compared to life expectancies during the 19th century. On the other hand, slow economic growth in developing economies before the turn of the millennium, has meant appalling living standards as compared to those of developed economies.

Thus, achieving the goal of economic growth for countries is analogous to increasing levels of productive activity and material wellbeing. Achieving this goal translates to higher incomes, higher levels of employment, and lots of goods and services available for investment and consumption. However, the importance of economic growth should not eclipse its conspicuous limitations. As an indices, the computation of economic growth is noticeably silent on environmental degradation and does not include the value of "home production". The measurement of economic growth misses out on most of the informal economy and fails in capturing welfare. Even more grave is the possibility of increasing economic growth existing with economic undesirables like poverty and inequality. The list of issues pertaining to the interpretation and measurement of GDP are much, but it does not remove from its significance. As increments in GDP occur, it means higher incomes as well as more goods and services being produced, making the average individual better off.

Over the past two decades, the Nigerian economy has experienced consistent high growth rates of about 6% – 8% which has made it among the fastest growing countries in the world. However, a historical perspective of Nigeria's growth rates shows truncated growths at different historical points. Ekpo and Umoh (2010) and Ekpo (1994) categorised Nigeria's historical growth rates into five periods: the pro-oil boom decade (1960 -70); the period of the oil boom (1971- 1977); the period of stabilisation and structural adjustment (1986 - 1993); the period of guided deregulation (1994 -1998); and the democratic dispensation (1999 – present).

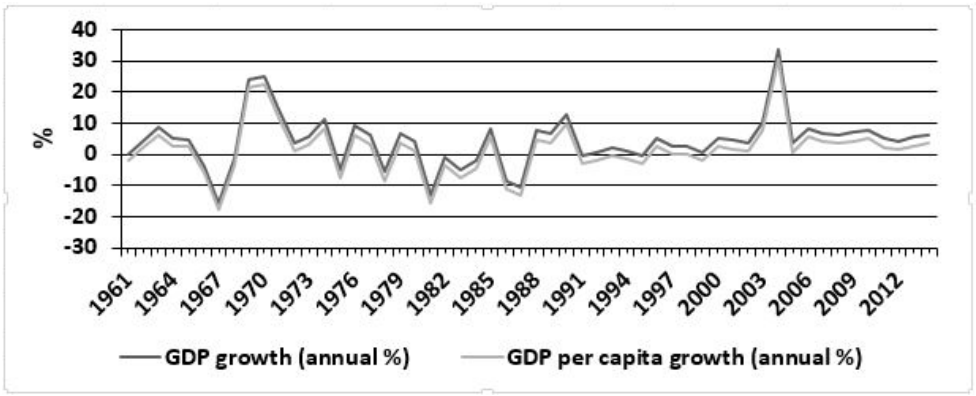

Figure 1: Growth Rates in GDP
Source: World Bank Development Indicators, 2015

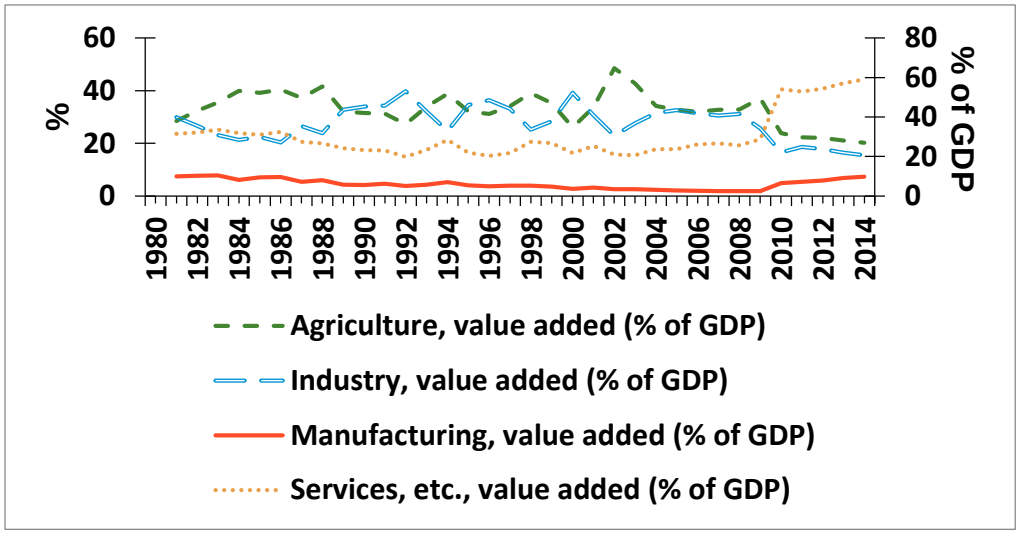

Figure 2: Sectoral Contribution to GDP
Source: World Bank Development Indicators, 2015

As documented by Ekpo and Umoh (2010), the Nigerian GDP had recorded a 3.1% annual growth rate during the period 1960 – 1970. The era of oil boom, 1970 – 1978, the Nigerian GDP growth grew positively to about 6.2% annually. Despite this remarkable growth rates, the country experienced negative growth rates in the 1980s. The period of Structural Adjustment Programmes (SAP) 1988 – 1997, the growth rates responded to government's policy of economic liberalisation and rose to about 4% annually. For the period representing democratic dispensation, especially in the year 2005, the growth rates increased remarkable but dropped

over the following years to about 8%. This recent experience of high growth rates are attributed to high world commodity prices, principal of which is oil prices (Ekpo, 2013).

Also of importance are the contributions of the agricultural, industrial, manufacturing and service sectors to growth rates of Nigerian GDP. The contribution of agriculture in 1960 was about 63% but has decline over the years to about 21% as at 2014. Agriculture has the potential to generate employment and growth which can reduce poverty (Ekpo, 2013). The industrial and manufacturing sector have not improved overtime with their contributions to growth in Nigerian GDP. This reflects a non-satisfactory level of capital formation within the country. Though there has been an improvement in the contribution of the manufacturing sector to growth from 2009, this improvement is marginal. The industrial sector's contribution to growth has dropped from a peak of about 48% in the late 1980s to about 20% as at 2014. The most remarkable contribution in recent times 2009 – 2015, has been that of the service sector. It has maintained a continuous increase in its contributions to Nigeria's GDP growth rates largely due to telecommunication firms and improved ease of doing business in the private sector.

The data available on Nigerian economic growth rates portray a robust, fast growing economy for over a decade. However, these growth rates have been unable to translate to lower poverty, lower inequalities in incomes earned, higher employment rates, better and more economic opportunities to all and ultimately encourage economic development. This paper therefore, makes a comparison between Malaysia and Nigeria, emphasising the occurrence of growth without development. To achieve this, the paper will hinge on evidence that shows economic growth that has not been translated into economic development. Using the state of inclusiveness of the growth process in the two countries and the potential for future increases in growth rates, the paper attempts to highlight the importance of achieving economic growth heralding economic development. Inclusive growth entails rapid and sustained economic

growth that allows a broad section of the economy to contribute to and benefit from economic growth process (CGD, 2008). The idea is that the growth process, while increasing output, should be broad based across different sectors of the economy as well as participatory by majority of the country's labour force. Inclusive growth therefore portrays the danger of solely prioritising the goal of attaining high growth rates that have no impact on a broad section of the economy. The inclusiveness of economic growth ensures that the challenges of poverty, inequality, unemployment, and environmental endangerment, which recorded levels of growth rates in different countries have failed to address, are comprehensively addressed. To this end, making the growth process more inclusive is synonymous with ensuring that the growth process translate to economic development for people. Inclusive growth does not merely assume that higher growth rates will ensure a trickle down to the poor, it advocates a conscious government effort that uses economic growth as a tool for achieving a reduction in poverty and inequality and the provision of jobs, which are key tenets of economic development.

2. Literature Review

To fully grasp the concept of economic growth, there is a need for a formal theory; for organizing the facts, clarifying causal interdependencies, as well as highlighting possible relationships that may exist. In understanding economic growth, as in the general study of economics, an argument not founded on a clear theoretical framework is seldom informative. The starting theoretical framework is the traditional analysis of economic growth – neoclassical school of thought. The neoclassical school emphasised on the roles of population growth and capital accumulation as the main drivers of long run economic growth. The basics of the model (Solow, 1956 and Swan, 1956) are that capital accumulation drives economic growth in the short run. This can be achieved through economic policy that encourages people to save more.

However, in the long run, the declining marginal productivity of capital will crowd out the contributions of capital to economic growth. The neoclassical school concludes that in the long run, growth rates will revert to the rate of technological progress, which they assumed to be exogenously determined – being independent of economic forces.

The growth process as prescribed by the neoclassical school can be described by two equations;

a) a production function that expresses output as a function of factor inputs (labour and capital):

$$Y = AK^{\alpha}L^{1-\alpha} \qquad 1$$

Where *Y* is total output, A is the productivity parameter (total factor productivity), $\alpha < 1$, *K* and *L* represent capital and labour. F'k > 0 and F"k < 0, indicating a decreasing marginal productivity of capital.

b) A law of motion that shows how the stock of capital depends on savings (investment) and depreciation:

$$\dot{K} = sY - \delta K \qquad 2$$

sY denotes aggregate savings as a function of total output and δK represents the rate of depreciation.

From these two equations, assuming investment equals savings i.e I $= sY$, then increases in $\dot{K}$ will lead to increases in national income and output. However, due to the diminishing marginal productivity of capital, national income will not grow as fast as capital, with the result that savings will not grow as fast as depreciation. Depreciation will catch up with savings and the capital stock will stop growing. At this point there can be no more growth in national income and output. Thus the growth process as explained by the neoclassical school cannot occur forever.

Despite the popularity of the neoclassical growth hypothesis, it was heavily criticized and proved unable to explain certain aspects of the growth process. The neoclassical model was silent on the role of technological progress in fostering economic growth. It was also incapable of clarifying why capital accumulation and population growth were unable to explain the growth process as observed for countries. The limitations of the neoclassical growth model, heralded a wave of endogenous models that attempted to give better explanations to the growth process. These latter model hypothesised technological progress as a key determinant of economic growth in the long run. The endogenous models assumed technological progress to depend on economic decisions – decision to innovate and enjoy the profits from innovating – and also depend on the funding of science, institutions, accumulation of human capital and other economic activities.

Extensions of the endogenous growth models include other significant economic variables that are largely subsets that further the attainment of technological progress and capital accumulation. For example, Howitt and Mayer – Foulkes (2005) theorised on how financial deepening will enable the accessibility of funds for R&D and long term investments which bring about economic growth. Mankiw, Romer and Weil (1992); Benhabib and Spiegel (1994) hypothesised on how investments in human capital stock and education will increase the quality and quantity of the labour force, which will eventually enhance productivity. Acemoglu, Aghion and Zilibotti, (2006) theorised how the availability of strong property protection rights and quality education have made a case for the importance of institutions in enhancing economic growth. Stronger institutions are more than property rights. They include roles of competition which forces firms to innovate in order to survive (Porter, 1990),

The endogenous growth model that emphasised technological progress as a source of economic growth can be explained using a simple Cobb Douglas production function. Assuming production process is characterised in the form of equation 1, then in per capita terms[1],

$$y = ak^{\alpha} \qquad 3$$

Thus a relative change in real GDP over time can be separated into two components:

$$\frac{\Delta y}{y} = \frac{\Delta a}{a} + \alpha \frac{\Delta k}{k} \qquad 4$$

The first term on the right hand side represents the growth rate of the total factor productivity while the second represents the effects of an increase of per – capita stock on the economy. The growth rate in total factor productivity is also called the Solow residual – because it is the portion of economic growth that the Solow model leaves unexplained. It is this unexplained portion that is ascribed to the impact of technological progress on economic growth. Aghion and Howitt (2009) were successful in showing the fallibility of the Solow model as the growth in total factor productivity accounted for the largest part of economic growth for OECD countries. Aghion and Howitt (2009) concluded that the total factor productivity – technological progress – determines productivity growth for countries, which determines wellbeing in the long run.

Becker (1964) extended the Solow model to capture the contribution of human capital in the growth process. He accounted for labour as more than just pure manual labour to include acquired specialised knowledge It is "human" because it is connected to human beings and "capital" because knowledge possess properties of an asset – it can be accumulated over time and can also lose its value over time .Denoting the stock of human capital per worker as *h,* Schultz (1971) and Becker (1964) extended the Solow model as follows:

[1] Divide both sides of the equation by $L^{1-\alpha}$.

$y = ak^{\alpha}h^{1-\lambda}$, $0 < \alpha, \lambda$ and $\alpha + \lambda < 1$ 5

Empirical studies (Hall and Jones, 1999) have historically measured human capital stock using different educational proxies. Understanding human capital as a driving force of economic growth emphasises learning and education and their opportunity costs. Time spent in education is seen as an investment considering that the time could be spent on working and earning wages. Thus current cost will compare to future benefits of education and learning. Though education and learning can increase the stock of human capital through learning in schools, colleges and the work place, human capital still possess diminishing marginal products. In this way, human capital can only proffer a limited explanation to the growth process.

Further extensions of the basic Solow model by Romer (1986) underlines the role of technological knowledge in the economy. This technological knowledge will increase the productivity of both capital and labour in the economy, thereby ensuring economic growth. This idea can be illustrated by characterising the economy into two sectors. One sector is for production of output and the other is for R&D which leads to innovations in the economy. The following mathematical equations can be used to express these sectors:

$Y = A\, K_y^{\alpha} L_y^{\beta} H_y^{1-\alpha-\beta}$ $0 < \alpha < 1$ and $0 < \beta < 1$ 6

$\dot{A} = A^{\theta} K_A^{\eta} L_A^{\mu} H_A^{1-\eta-\mu}$ $0 < \eta < 1$ and $0 < \mu < 1$ 7

Where subscript y denotes the amount of the factor use for productive process and subscript A denotes the amount of the factor used for R&D. Thus $K_A + K_Y = 1$, $L_A + L_Y = 1$ and $H_Y + H_A = 1$. In the R&D sector, $\dot{A}$ represents the law of motion on how new ideas are created in the R&D sector. The model allows for the possibility of old technological knowledge affecting the creation of new knowledge i.e. it will be difficult to create new ideas, because it will be easier to replicate already existing knowledge but relatively more difficult to create new and distinct

knowledge. Consider the allocation of capital between the two sectors. In a competitive market, the real wage equals the marginal productivity of labour:

$$MPL_Y = A\beta\, K_y^{\alpha} L_y^{\beta-1} H_y^{1-\alpha-\beta} = w_y \qquad 8$$

$$\partial MPL_A = \partial\mu A^{\theta} K_A^{\eta} L_A^{\mu-1} H_A^{1-\eta-\mu} = w_A \qquad 9$$

In the R&D sector, the nature of knowledge as information does not allow for a simple first derivative of the sector's production function. Once knowledge is out, it becomes free and universally available. A competitor will be free and able to use this knowledge and benefit from it. Thus, Romer (1986) modelled the R&D marginal productivity by allowing the marginal product accruing to the firm developing the new ideas to be lower than the true marginal product generated for the economy as a whole. This was done by saying that wage paid by firms in the R&D sector is $\partial > 0$ times the marginal product of labour in that sector where $\partial < 1$. Government can influence ∂ through patent protection.

The postulates of the model on its ability to induce long run economic growth can be seen when government improves patent protection. If this is done, then the profits accruing to those who want to innovate, will serve as an incentive for further investment in R&D. Firms in R&D sector can further retain more of their marginal products of their workers, pay higher wages and more labour migrate to that sector. The level of technology, A, grows faster and more R&D takes place. This process ensures that economic growth can continue for a very long time and what matters to nations is improving the productivity of its labour force and capital endowments. It is also important that economies ensure that their R&D sector remains productive.

However, the practical applications of the model depends considerably on the level of financial deepening in the economy's financial sector as well as the development of economic

institutions existing in the economy. With regards to financial development, if individual firms and the government are provided with adequate financing for projects that will drive economic growth, then the postulates of the model become intuitive. From the theoretical exposition, what drives economic growth is the investment in human and physical capital and investment in innovative research. Therefore, adequate financial resources that will enable investment in growth drivers becomes paramount. Despite the importance of finance in the economic growth process, importance should also be made on the difficulties that firms and governments' face with respect to providing adequate financing. Also the role of commercial banks and other financial intermediaries at facilitating the provision of finance becomes an important issue in achieving economic growth.

Inherent in the theoretical framework is the importance of economic institutions in the growth process. Having pointed out the importance of property rights and patents, education and health, R&D in the model, these drivers of economic growth can only operate effectively in an economy with strong institutions. For example, with advanced supervisory bodies and justice system, ease of doing business as well as the protection of property rights will ensure accelerated growth rates. Also, an education system that recognises quality standards and encourages enrolment for both boys and girls will advance productivity. Strong institutions also includes the protection of innovators against imitators, the supply of health skilled labour through advanced education and health systems, and the protection of human rights and freedom.

From the theoretical framework of the growth process, the major drivers of economic growth for countries are:

- Capital accumulation
- Financial Deepening

- Human capital
- Technological Progress
- Institutions.

On the role of savings and investment at inducing economic growth, Caselli (2005) and Jorgenson (2005) emphasised the use of growth accounting to show how investment and savings could explain cross country differences in growth rates. For developing countries like Nigeria, they argued for sustained increases in domestic and foreign investment which will increase formation of capital and boost the growth process. Dikko (2016) investigated the effects of capital accumulation on unemployment and growth. Based on post Keynesian models and using a vector autoregressive model covering quarterly time series data from 1996 – 2014, Dikko (2016) found capital accumulation – in the form of mobilising domestic savings and attracting foreign investment - to be the main determining factor of unemployment and growth reduction in Nigeria.

Though it has been established that investment drives economic growth, there is a need to emphasize the ease at which investing firms can finance these growth encouraging investments. When people are willing to save more in an economy, loanable funds become readily available for investors. The existence of a developed financial sector, trustworthy banks and financial institutions and a strong regulatory body, the process of loanable funds getting to investors become smooth and this can improve economic growth. Levine (2005) summarised that countries with better functioning banks grow faster, and better functioning financial system ease external financial constraints.

Hassan et al (2014) investigated the relationship between financial development and economic growth for low and middle income countries. Using panel data for a period of 1980 – 2007, they found financial development to have a positive relationship with economic growth.

However, using an innovative dynamic panel threshold technique with a sample of 87 developing and developed economies, Siong and Nirvikar (2014) found that financial deepening enhances growth to a certain threshold. After this point, further deepening of the financial sector can crowd out economic growth. A plausible explanation for this is when financial resources are disproportionately allocated to low productive projects at the expense of high yielding projects (Cecchetti and Kharroubi, 2013).

The seminal empirical contribution of Benhabib and Spiegel (1994) describes the growth process for developing economies, has been driven by the stock of human capital which inadvertently increases the possibility of innovation and growth. The stock of human capital is determined by population growth, quality of education, and health. Earlier empirical studies on the relationship between human capital and economic growth found a positive relationship between these variables (Romer, 1990; Barro and Sala – I – Martin, 1995; and Caselli et al, 1996).

Of relatively recent, Whalley and Zhao (2010) developed a unique measure for human capital and used it to evaluate the contribution of human capital on the Chinese Economy. They measured human capital as the alternative forgone when individuals acquire human capital. This measurement focuses on the earnings forgone when an individual obtains schooling. They found that their measure of human capital accounted for 38% of growth. Heckman and Yi (2012) studied the educational inequality that existed between coastal and inland communities due to rapid initial growth in china. They found that China's growth will be enhanced with the combination of expanding access to all tiers of education, Health facilities and labour mobility. Dutt and Veneziani (2015) developed a classical macroeconomic model to examine the growth effect of education. They found that, expansive education policies can induce grown and reduce inequalities. Furthermore, the growth inducing effects of education will depend on the educational system and labour market relations.

A common prediction among economic historians is that institutions do matter for economic growth. It makes sense to think that long run economic growth can be enhanced by a combination of good property rights and quality education (Aghion, and Howitt, 2006). North (1990) define institutions as the rules or constraints on human behaviour which may be formal or informal. Grieif (2006), further expatiated institutions to include all forms of economic organisation and the set of beliefs that shape the interaction between economic agents. Glaeser et al (2004) using cross country data was able to show the importance of institutions in the growth process.

La Porta et al (1999), Djankov et al (2003) and Glaeser (2004) emphasised legal origins – which comprises investor's rights, debt collection system, and entry regulations, as a proxy for institutions. The main idea is that differences in law codes should affect the functionality of institutions that enhance economic growth. They restricted their analysis to English common law code (decentralised and relies on legal experience) and the French law code (centralised and relies on written codes that are strictly followed). Using a sample of 49 countries, La Porta et al (1999) were able to show that countries with common law system had better business regulations and better patent protections. Djankov et al (2003) using a sample of 109 countries showed that countries under the French civil law system had longer delays in dispute resolutions and thus increased inefficiency in doing business. Flachaire et al (2011) investigated the role of institutions using both cross sectional and panel data for developing and developed countries for the period 1970 – 2014. They found that economic institutions had a direct effect on growth rates while political institutions set the stage for which the economic institutions can function.

Technological progress ensures that economic growth can continue in the long run because, unlike capital accumulation which depreciates, technology progress allows for increasing returns to scale. Thus principal prominence has been placed on encouraging technological

progress through R&D, in order to ensure long run economic growth for countries. To ensure growth in the long run through technological progress, the AK model postulates "saving a fraction of accumulated capital – both physical capital and intellectual capital that arises from technological progress – which will finance a higher rate of technological progress and enhance economic growth" (Aghion and Howitt, 2007). Romer (1990) and Aghion and Howitt (1998), attributed technological progress to innovations – innovations that promote productivity growth through the production of new variety of products and the production of quality improving products (creative destruction).

Garcia - Muniz and Vicente (2015) argued that for technological advancement as a major instrument for increasing productivity as well as generating new sources of income and wealth. Using a structural hole methodology (Burt, 1992), they were able to show that the European ICT sector as an enabler of technological diffusion, innovation and promoter of growth. Cozzi and Chu (2013), investigated on the role of R&D investment in encouraging economic growth. Placing cash constraints on R&D investments, they found that government monetary policy of an increase in nominal interest rates will decrease R&D investments and economic growth for the USA economy.

As stated earlier, despite the importance of economic growth as an important statistic for economies, it is the ability of the growth process to further economic development that makes it very important. Economic growth is necessary but not sufficient for ensuring economic development. Even with growing countries, economic researchers ask question of the form: what is happening to poverty? Why is the economy growing with high inequalities and high unemployment rates? What fraction of the economy is contributing to the growth process? Currently, there is a clamour by researchers and other stakeholders to shift the focus from achieving economic growth to fostering a more inclusive growth and development (Acemoglu and Robinson, 2012; European Commission, 2014; Hull, 2009)

In summary, the theoretical underpinnings of the growth process has highlighted: Capital accumulation, Financial Deepening, Human capital, Technological progress, and Institutions as the key drivers responsible for long run economic growth for countries. Nevertheless, improving the state of these key factors does not necessarily translate to economic development. However, achieving economic growth is not sufficient for attaining economic development. Therefore, this paper will use a comparative investigation on Nigerian growth rates in order to understand why these high growth rates have not ensured economic development.

3. The Growth Process in Nigeria

Since the return of democracy to Nigeria in 1999, the Nigerian economy has experienced consistent high growth rates of about 6% - 8%, which has made it one of the fastest growing economy in the world and the biggest in Africa. The principal determinant at ensuring this high growth rates has been high world commodity prices (Ekpo, 2013). A cursory look at world oil prices and domestic oil production for Nigeria will provide some enlightenment. As at 1999, crude oil prices in the world market was approximately 11 dollars per barrel. Before the slum in oil prices in 2014, the price of crude oil had risen to approximately 108 dollars per barrel, with a peak price of 133 dollars per barrel in 2008. Domestic production of crude oil as at 1999 was about 2.1 million barrels per day, but increased to about 2.5 million as at 2013 ending and a peak production of 2.6 million barrels per day in the year 2005.

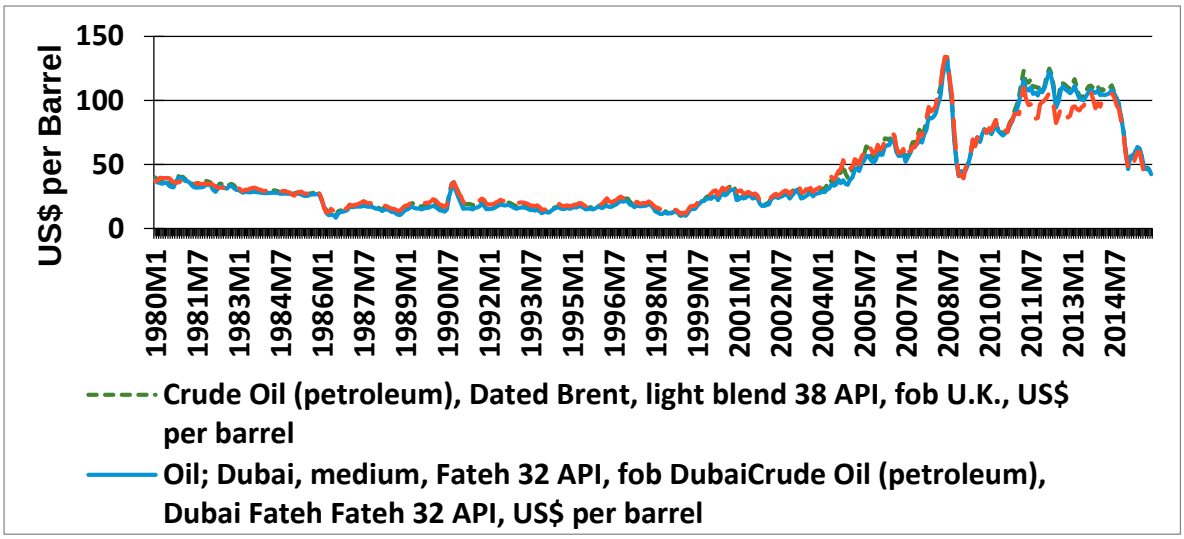

Figure 3: World Crude Oil Prices. Dated Brent, Light Blend 38 API, and Dubai, Medium, Fateh 32 API, are all different types of crude oil produced in the world market.

Source: World Bank Commodity Price Data (Pink Sheet, 2016)

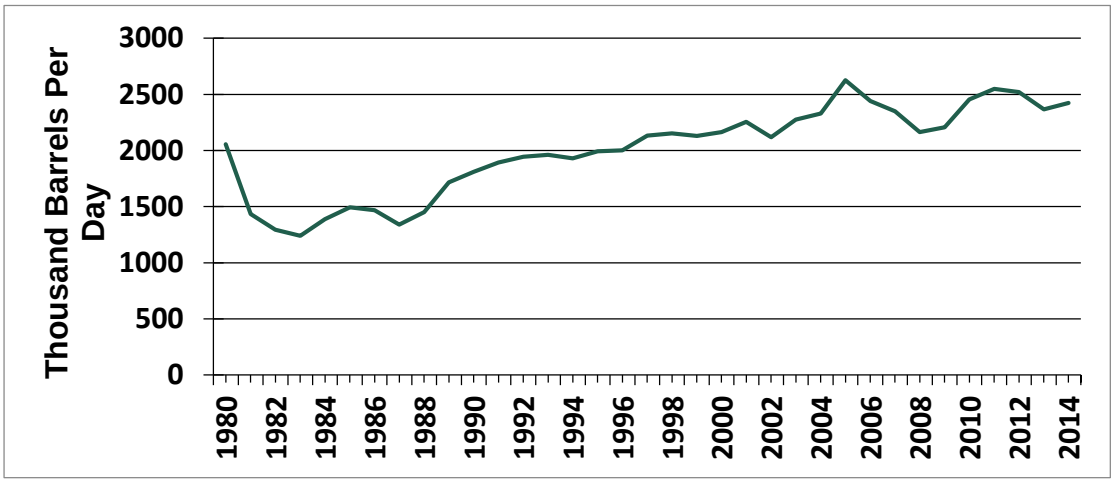

Figure 4: Nigerian Oil Production

Source: NNPC Annual Statistical Bulletin, 2014

Obviously, there was a worldwide crude oil boom, with positive effects of these increased revenue for a developing economy like Nigeria. The crude oil boom and its resultant optimistic effects on Government's revenues and expenditure, was the main factor that led to the high growth rates experienced in the country at the inception of democracy in 1999. However, due

to the over reliance on crude oil and inadequate diversification of the Nigerian economy, negative shocks to world oil prices has had a direct negative effect on all sectors of the Nigerian economy.

The problem is the exogenous nature of oil prices. Oil prices are beyond the control of the Nigerian government, and unfavourable prices has led to decline in revenue which has crippling effects on a developing economy where the government plays significant roles in employment, production and provision of infrastructure and social security. Consequently, proffering any policy for the sustainability of long run economic growth will be susceptible to high risk of failure due to the exogenous nature of crude oil prices. Therefore, sustaining Nigeria's high growth rates and even future prospects for increasing growth rates are likely to be problematic if the government follows a given policy that relies on being financed with revenue from an exogenous factor like crude oil prices. There is therefore a need to rethink Nigeria's growth along the line of endogenous determinants – growth inducing factors that are within the control of policy makers.

As already highlighted, Nigeria's current high growth rates cannot be sustained as long as the country finances its growth enhancing policies with revenue from a volatile and exogenous factor like crude oil. In order to ensure rapid and sustainable economic growth at high levels, the government will have to diversify the economy to inculcate a broad based growth framework. In essence, Nigeria's economic growth process must become more inclusive. Inclusive growth is concerned with the shortcomings of emphasising economic growth, with the aim of guaranteeing that the benefits of growth are broadly spread within an economy. Inclusive growth is saying that a significant fraction of resources available to an economy is not being used – efficiently and effectively – and this mitigates sustainability and potential for higher growth rates. Government's objective of economic growth must be beyond increasing GDP.

In achieving this objective, questions about why poverty, inequality, unemployment and degradation of the environment remain dominant occurrences in the Nigerian economy despite experiencing high growth rates? If growth improves the material well –being of the citizenry, why then is poverty and inequality persistent? If these problems of poverty, inequality and unemployment are reduced, can high economic growth rates be achieved and sustained? Evidence from the Nigerian case clearly shows that her economic growth is not inclusive enough. Both Figures 5 and 6 give an indication of unemployment in both Nigeria and Malaysia. Figure 5 gives an indication of total unemployment estimates in both countries, while figure 6 indicates youth unemployment in both countries. Figure 7, highlights the predominance of poverty in Nigeria and how effectively Malaysia has been able to reduce poverty. The graph shows that Malaysia has very low poverty rates relative to that of Nigeria.

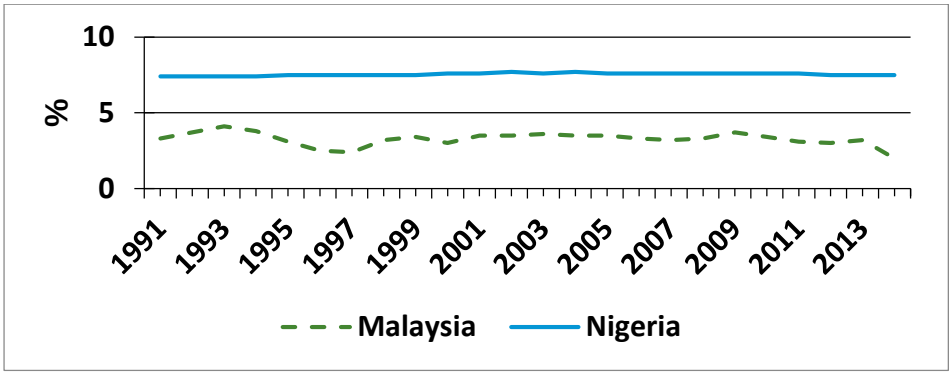

Figure 5: Total Unemployment modelled ILO estimates

Source: World Bank Development Indicators, 2015

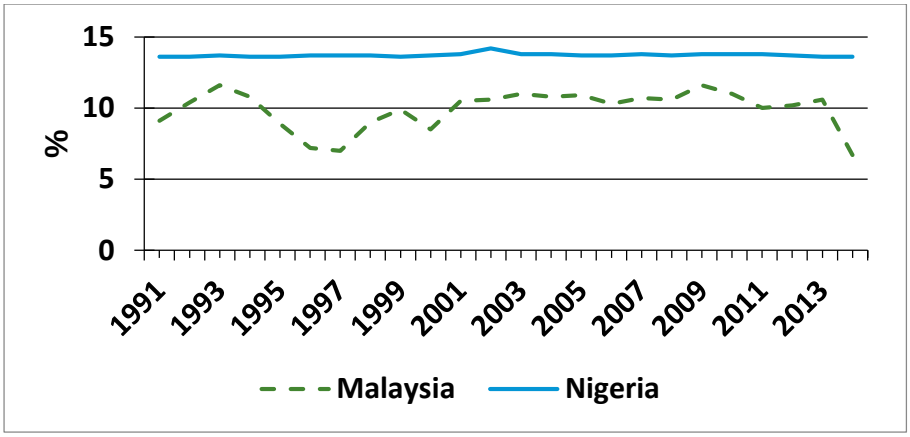

Figure 6: Total Youth Unemployment (15 -24 years of age) Modelled ILO estimates

Source: World Bank Development Indicators, 2015

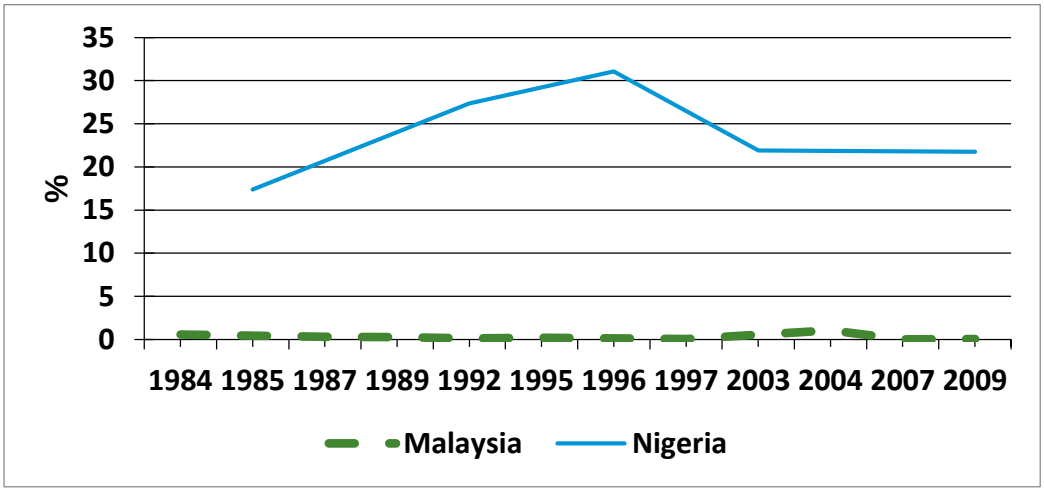

Figure 7: Poverty Gap at 1.90 dollars a day (2011 PPP)

Source: World Bank Development Indicators, 2015

Table 1: GNI index World Bank Estimates

	Malaysia Index	Nigeria Index
1992	47.65	44.98
2009	46.25	42.97

Source: World Bank Development Indicators, 2015

Given the peculiarities of the Nigerian economy, and the need for achieving inclusiveness in its economic growth process, certain strategies are advocated to attain a more inclusive growth. First, investment in human capital, which is accepted generally as an important factor in achieving the goal of inclusive growth. Investment in human capital has been shown to be empirically associated with improvements in material well – being of people in an economy (Ravallion, 2004). Labour represents a key determinant of the production of goods and services. Thus better education enables all gender to benefit and participate more in this productive process (Hull, 2009). Investing in health is also key in achieving inclusive growth, because health and education are mutually reinforcing through their effects on labour productivity (Narayan et al, 2013). Thus, government should commit more resources to the education and health sectors. Free and compulsory education to at least secondary school level should be pursued. This is to ensure that a large percent of the society are educated and possible break the poverty cycle. Emphasis should be placed on pre – primary and primary education, where children begin to form lifetime habits and characters. Also, Government should dedicate more resources to research and development which will be domiciled in tertiary institutions. These institutions, if properly funded and encouraged by political will, can provide solutions to the country's economic problems.

Education and health are both mutually reinforcing. With good health, people will be able to partake and gain from educational objectives. Also, with better education, there will be advances in the health sector. Therefore, to benefit from better education, the government must commit resources for the provision of a well-functioning health sector. The paper calls for a national health scheme that does not only benefit those who work for the formal sector. This national health scheme will reduce out of pocket expenditure on health by private individuals as the informal sector and its contribution to Nigeria is very significant.

Also, there must be a structural transformation of the economy from dependence on a single sector to other growth enhancing sectors in order to induce a broad based growth. The reduced reliance on a single sector through structural transformation will reduce the instability in productive activity which will generate more jobs, increase total output and enhance economic growth. The ideal form of structural transformation will be geared towards the domestication of the growth process, whereby the various sectors – especially the service sector given its increasing contributions to value added growth and the creation of strong and efficient institutions – of the domestic economy will be the chief drivers of an inclusive growth process. The process of achieving this postulated form of structural transformation must recognise the peculiarities of the Nigerian economy – dependence on crude oil, high poverty rates, inequality, and corruption. Thus, there is need to immediately diversify the economy by harnessing the growth potentials of other sectors in the economy. Of importance, the contributions of the service sector has been highlighted in figure 2, with a growing trend in its value added to the economy. Also, the government has to create an enabling strategy which when followed will help improve the productivity of the informal sector and private formal sector. These strategies should consider the role of Small and Medium Scale Enterprises (SMEs) and their contributions to a more inclusive growth. The intuition here, is that government must consider, especially the negative effects, of its economic policies on SMEs.

Also strengthening the social protection and institutional capacity – with emphasis on institutions concerned with doing business in the country, vulnerability of minority groups and the rule of law – is paramount in the transformation process. If growth is to improve material well-being and ensure development, then there is a need for government to protect the rights and opportunities of all irrespective of vested interests (Acemoglu and Robinson, 2012). Given that the poor tend to suffer more from growth instabilities (USAID, 2012), the transformation of the economy must identify those aspects of the economy that directly affect the poor – like

agricultural sector and informal sector – and restructure these sectors in order to make Nigeria's growth more inclusive.

In the long run, both potential output and economic growth are determined by how the economy is able to produce at its capacity. Government's role is to proffer strategy and an enabling regulatory and supervisory framework in which the economy can produce at its potential capacity at any given time – making actual GDP to closely track potential GDP. The possibility of the government expanding potential output even more, will further improve the material well – being of its people. To achieve this in the long run, supply strategies – where the aim of these policies is to increase productivity (vertically and horizontally) while reducing cost of production – are most appropriate because they facilitate a larger capacity to produce goods and services in an economy. These strategies involve stimulating: capital accumulation, financial deepening, human capital, technological progress, and institutions. The paper is silent on demand strategies, not because they are unimportant, but they work better in the short run (Keating, 1995).

It is therefore intuitive that any possibly constraints to economic growth potential in the Nigerian case will be synonymous to constraints to the key drivers of economic growth. In other words, how has limitations to the key drivers of economic growth in Nigeria, acted as constraints to potential growth rates. To give concrete insights, we present trends of the key drivers of economic growth for both Nigeria and Malaysia, emphasising comparative inadequacies of these key drivers as sources of constraints to the Nigeria's growth potential.

A comparative of gross investment in both Malaysia and Nigeria, gives an insight to their respective trends and plausible explanation of the divergence in GDP. In the early 1980s, Nigeria's gross capital formation was indeed larger than that of Malaysia. However, Malaysia's gross capital formation, eclipsed that of Nigeria and have continued till present.

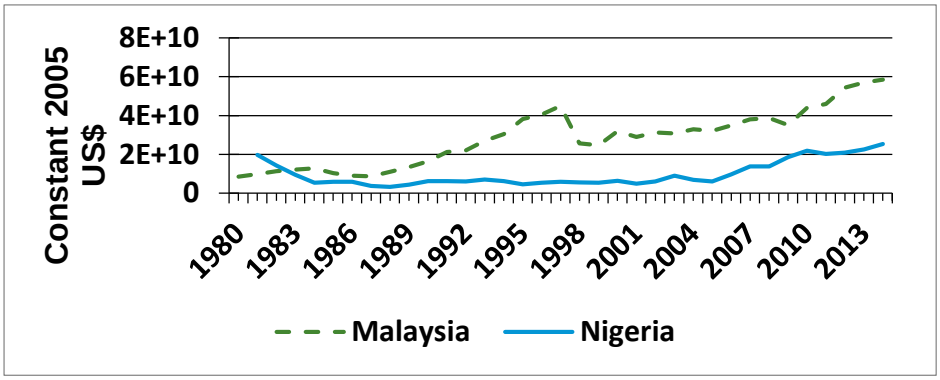

Figure 8: Gross Capital Formation at 2005 Constant Prices.

Source: World Bank Development Indicators, 2015

On the role of the financial sector in encouraging economic growth, domestic credit by financial sector as a fraction of GDP and broad money supply as a fraction of GDP are used to capture the level of financial development in the economy. The trends show that the Nigerian financial sector is not as developed as that of Malaysia's. The proxy for financial development showed that Nigeria peaked at approximately 43% for broad money supply and 37% for domestic credit by the financial sector, compared to Malaysia's 139% and 143% respectively.

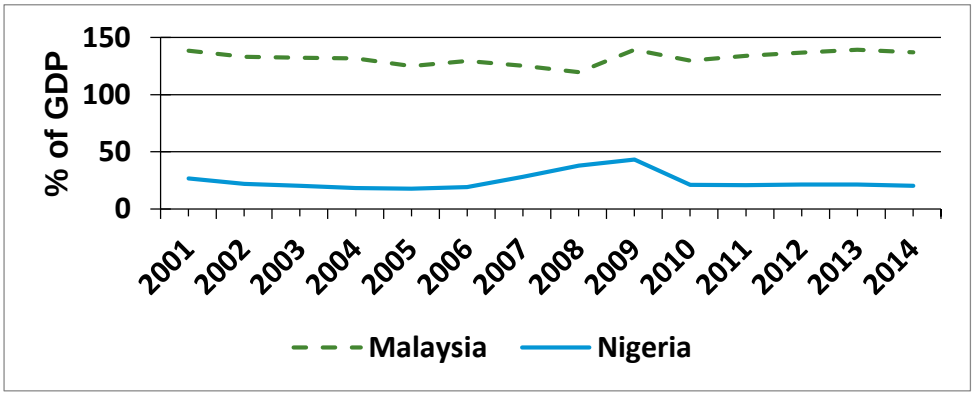

Figure 9: Broad Money supply as a Fraction of GDP

Source: World Bank Development Indicators, 2015

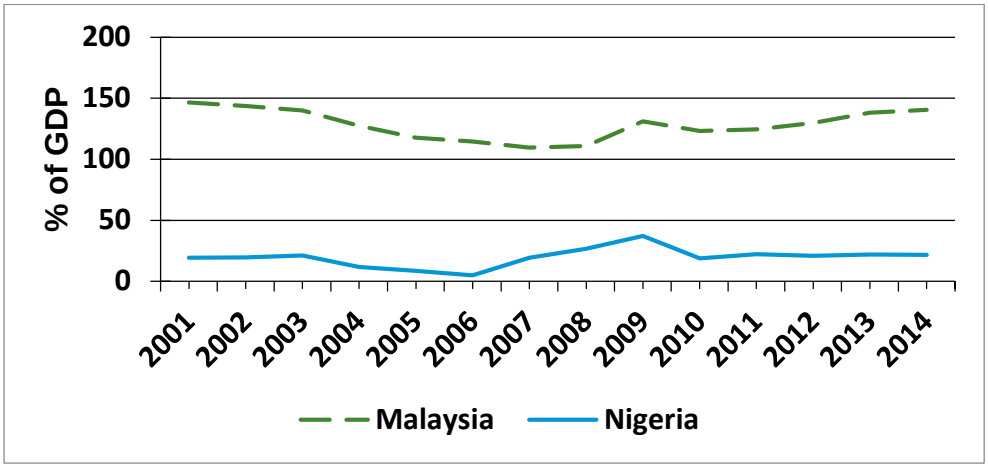

Figure 10: Domestic Credit by Financial Sector as a Fraction of GDP

Source: World Bank Development Indicators, 2015

The drawbacks on the highlighted key drivers of economic growth for Nigeria becomes conspicuous when human capital is considered. As of 2010, adult literacy as a fraction of people who were 15 years and above was 93% in Malaysia and 51% in Nigeria (World Bank Indicators, 2015). When primary school completion rate was considered, Malaysia had achieved total completion rate as at 2005 while Nigeria averaged 73% as at 2009 and still strives to achieve a total completion rate (World Bank Indicators, 2015). On health issues, life expectancy is approximately 74 years in Malaysia and 52 in Nigeria. Malaysia committed more resources to the health of its people than Nigeria. The trend shows a widening gap between health expenditure in Malaysia and Nigeria. Even more discouraging, is the divergence in out – of – pocket expenditure by private individuals on health. With a well-developed health care system, it is expected that out – of – pocket health expenditure by private individuals will be small because of the provision of a national health insurance scheme. The trend shows that Nigerian private individuals spend considerable higher than their Malaysian counterparts.

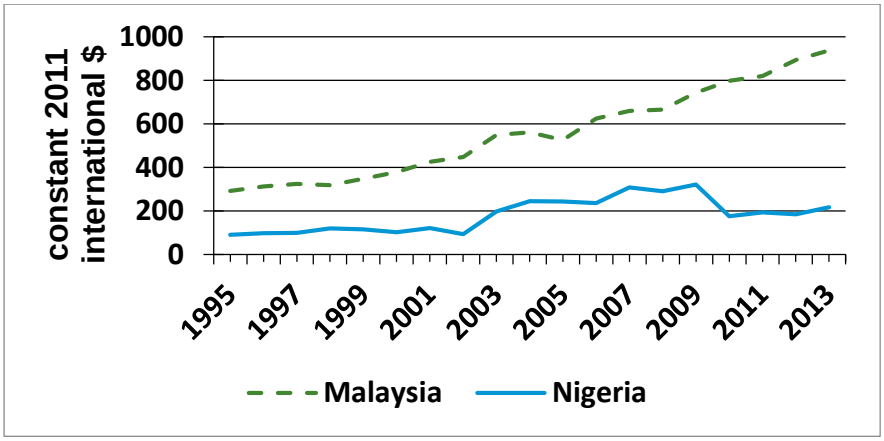

Figure 11: Health Expenditure per capita at 2011 PPP Constant Prices

Source: World Bank Development Indicators, 2015

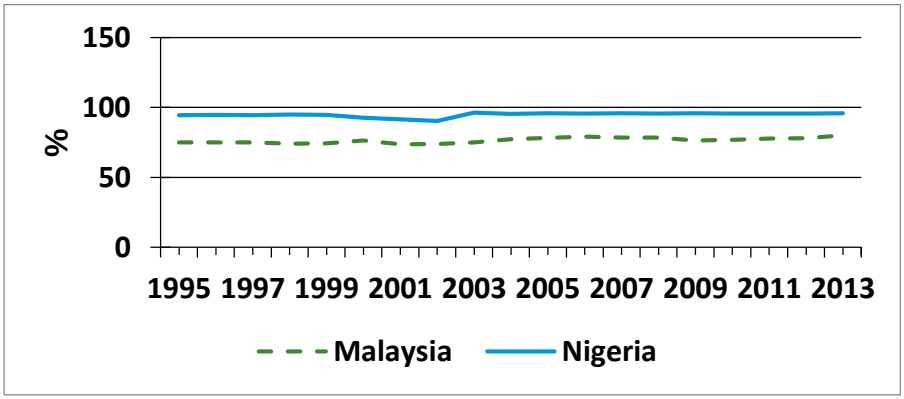

Figure 12: Out – of - Pocket Health Expenditure (% of Private Expenditure on Health)

Source: World Bank Development Indicators, 2015

Technological advancements serve as a key driver of economic growth. In mitigating the limits of capital accumulation in enhancing economic growth, technological advancements has been able to account for rapid development in many economies. In the Nigerian case, the rate of technological advancement has been slow and minimal. Using high technology exports as a fraction of manufactured exports, Nigeria's high technological exports peaked at about 13% while Malaysia peaked at about 60%. Also, considering patent applications by residents as a

proxy for technological advancement in both countries, the trend shows a large difference between both countries. The obvious inadequacy of technological advancement in the country, serves as a limitation to the potential for harnessing future higher growth rates.

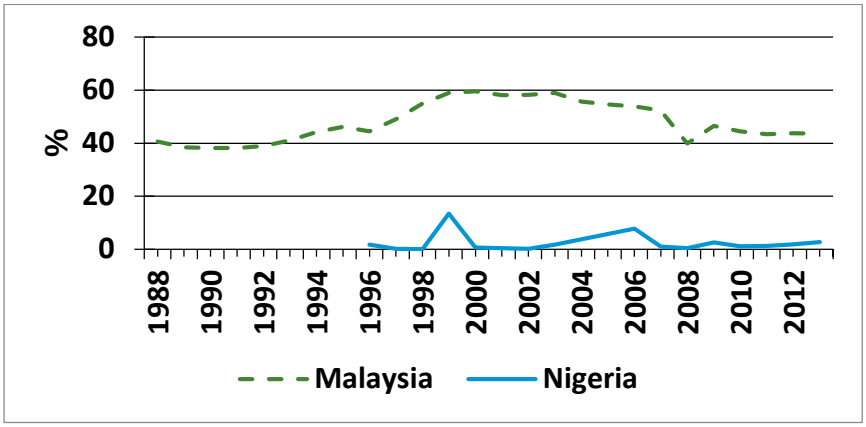

Figure 13: High – Technology Exports (% of Manufactured Exports)
Source: World Bank Development Indicators, 2015

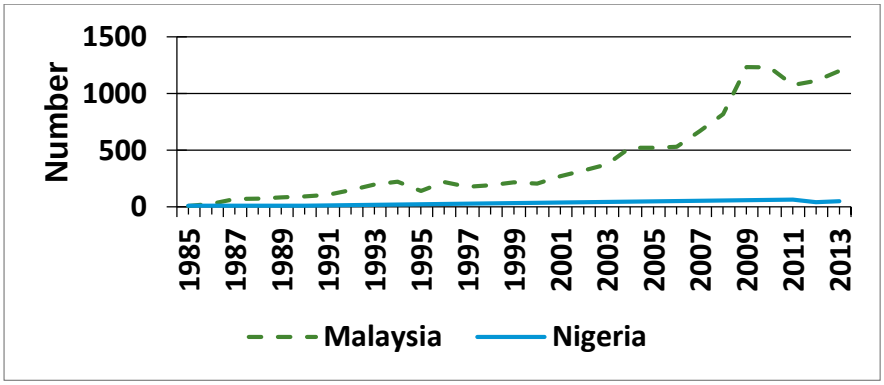

Figure 14: Patent Applications (Residents)
Source: World Bank Development Indicators, 2015

The quality of institutions are an important factor for any country that pursues economic development. In the Nigerian case, the quality of its institutions serves a drawback in achieving this goal. For example, 44% of Nigeria firms identify corruption as a major constraint to doing business in the country as compared to 16% in Malaysia. Infrastructure like electricity can be

the determining factor on where to do business for some firms, especially multinationals. On the average, Nigerian firms experience electricity outages 32 times in a month and lose about 10% of annual sales as compared to 4 times and 1% respectively in Malaysia. As a measure for technology and innovation, 23% of Nigerian firms' surveyed used emails to contact suppliers and 7% had internationally recognised quality certification as compared to 66% and 54% respectively for Malaysia.

Table 2: Institutions and Infrastructural Development

Institutions and Infrastructure	Nigeria	Malaysia
Percent of firms identifying corruption as a major constraint	44.8	16.3
Number of electrical outages in a typical month	32.8	4.4
Proportion of electricity from a generator (%)	41.2	16.1
Percentage of firms identifying transportation as a major constraint	17.1	10.6
Percentage of firms using e-mail to interact with clients/suppliers	23.5	66.8
Percentage of firms with an internationally-recognized quality certification	7.1	54.1
Percentage of firms using technology licensed from foreign companies	6.5	15
Losses due to electrical outages (% of annual sales)	10.8	1.1

Source: World Bank Enterprise Survey, 2015

4. Conclusion

The paper investigated the growth process in Nigeria by placing emphasis on how economic growth can translate to improving the well-being of its citizens and ensuring the concept of economic development. To achieve this, the paper looked at the inclusiveness of Nigeria's economic growth and the potential for future increments in growth rates. Despite high growth rates experienced over the last decade, Nigeria's growth has not trickled down to the poor. One of the reasons is that these high growth rates were induced by an exogenous increase in oil prices. This cannot be sustained because world oil prices are beyond the control of the Nigerian government. Therefore, the paper advocated for a broad based growth frame work that

encourages a more inclusive growth process which entails: investment in education and health, strengthening the institutional and infrastructural base, and restructuring the economy with a focus on the informal sector, SMEs and the private sector. The paper postulates that, to ensure rapid and sustainable economic growth that will trickle down to the poor, the government must strategize to make the growth process more inclusive. Also, to increase the productive capacity and potential, the government must commit resources to the key drivers of economic growth: Financial development, investment in human capital, capital investment, technology and institutions.

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